

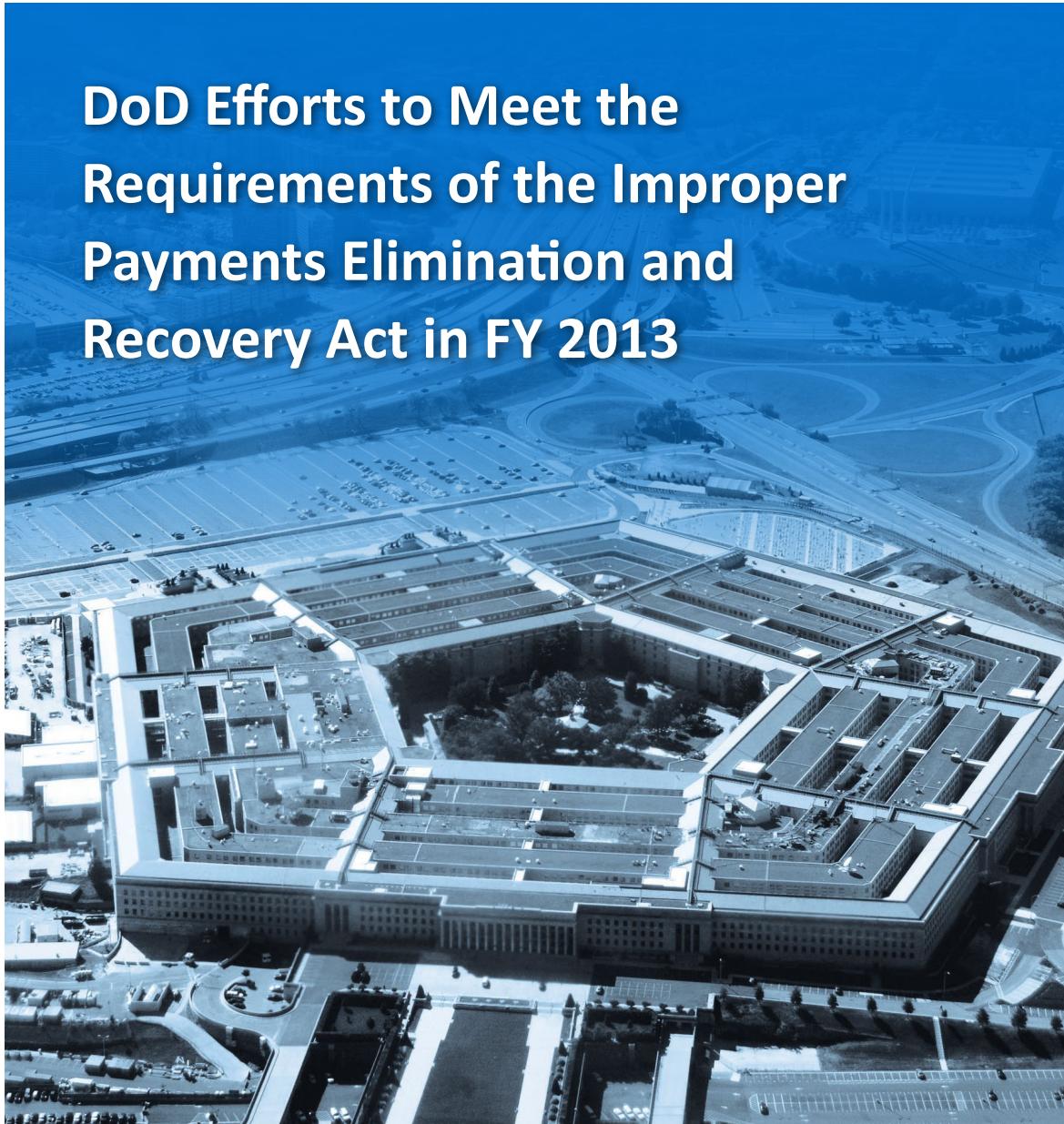


INSPECTOR GENERAL

U.S. Department of Defense

APRIL 15, 2014

DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2013



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Mission

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Results in Brief

DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2013

April 15, 2014

Objective

We determined whether DoD complied with Public Law No. 107-300, "Improper Payments Information Act of 2002," November 26, 2002, as amended by Public Law No. 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010 (IPERA). The audit was required by Public Law 111-204.

Finding

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) met five of the six requirements of the IPERA. Specifically, DoD:

- published an Annual Financial Report,
- conducted program-specific risk assessments,
- published corrective action plans,
- published improper payment estimates, and
- reported improper payment rates of less than 10 percent.

However, DoD's inability to ensure all required payments were reviewed resulted in unreliable estimates and rates.¹

¹ We plan to issue another report that will address the completeness of the payments used for the estimates.

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Finding Continued

Furthermore, DoD did not meet the reduction targets for five of its eight payment programs with established targets.

The USD(C)/CFO also met the Office of Management and Budget requirement to report information on its efforts to recapture improper payments within the DoD FY 2013 Annual Financial Report.

Recommendations

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- work with Military Departments and Defense Agencies to develop metrics and quality assurance goals as well as programmatic corrective action plans, including holding those officials financially liable where appropriate;
- submit a remediation plan to the appropriate congressional committees as required by IPERA; and
- coordinate with the Director of Office of Management and Budget to review the Defense Finance and Accounting Service Travel Pay program and determine whether additional funding would help the agency comply with Public Law 111-204 for meeting payment reduction targets.

Management Comments and Our Response

The Deputy Chief Financial Officer provided comments in response to a discussion draft of this report. Management comments addressed all specifics of the recommendations and no further comments are required. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD		1.a, 1.b, 2.a, 2.b, 3.a, 3.b, 4.a, 4.b, and 5



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

April 15, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE HEALTH AGENCY
CHIEF OF ENGINEERS, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2013 (Report No. DODIG-2014-059)

We are providing this report for your information and use. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, met five of the six requirements of the "Improper Payments Elimination and Recovery Act of 2010." However, DoD did not meet the reduction targets for five of the eight payment programs with established targets. In addition, DoD's inability to ensure that all required payments were reviewed resulted in unreliable estimates and rates.

We considered management comments on a discussion draft of this report when preparing the final report. The management comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8901 (DSN 664-8901).

Daniel R. Blair
Daniel R. Blair
Deputy Inspector General
For Auditing

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Introduction

Objective

Our objective was to determine whether DoD complied with Public Law No. 107-300, “Improper Payments Information Act of 2002,” November 26, 2002, as amended by Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010. The audit was required by the 2010 Act. See the appendix for our scope and methodology and prior coverage.

We will issue a separate report on this subject for the ongoing audit of “DoD Methodologies for Determining Improper Payment Rates Under the Improper Payments Elimination and Recovery Act” (Project No. D2014-D000CJ-0105.000).

Background on the Improper Payments Elimination and Recovery Act

On July 22, 2010, the President signed Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010” (IPERA), which amended the “Improper Payments Information Act of 2002.” The Office of Management and Budget (OMB) issued Circular A-123, Appendix C, “Requirements for Effective Measurement and Remediation of Improper Payments,” Parts I and II, April 14, 2011, as guidance for agencies to implement the requirements of IPERA.

IPERA Compliance Requirements

IPERA section 3(a) states that the term “compliance” means that the agency:

- published an annual financial statement for the most recent fiscal year and posted that report and any accompanying materials required under OMB guidance on the agency website;
- conducted a program-specific risk assessment for each program or activity;
- published improper payments² estimates for all programs and activities in the accompanying materials to the annual financial statement;

² An “improper payment” is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit of applicable discounts, payments that are for an incorrect amount, and duplicate payments). Improper payments also include payments made to ineligible recipients or for ineligible goods or services, or payments for goods or services not received (except for such payments authorized by law). Improper payments also include payments when an agency’s review is unable to determine whether the payments were proper as a result of insufficient or lack of documentation.

- published programmatic corrective action plans that the agency may have in the accompanying materials to the annual financial statement;
- published improper payments reduction targets that the agency may have in the accompanying materials to the annual financial statement for each program assessed to be at risk, and is meeting such targets; and
- reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published.

OMB implementing guidance added an additional requirement for determining agency compliance. Specifically, OMB Circular A-123, Appendix C, Part I, requires agencies to report information on efforts to recapture improper payments.

IPERA section 3(b) requires the Inspector General to annually review and determine agency compliance with IPERA. Implementing guidance requires the office of the agency Inspector General to submit a report with its determination on the agency's compliance to the head of the agency, Senate Homeland Security and Governmental Affairs Committee, House Committee on Oversight and Governmental Reform, and Comptroller General, on an annual basis within 120 days of the Agency Financial Report (AFR) issuance.

If an agency did not meet one or more of these requirements, then the agency was not compliant with IPERA. IPERA implementing guidance encourages the office of the agency Inspector General to evaluate, as part of its review of these improper payment elements, the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments. The guidance also encourages the office of the agency Inspector General, as part of its report, to include any recommendations for actions to improve the agency's performance in reducing improper payments.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provide reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. DoD self-identified internal control weaknesses related to improper payment identification and reporting in its "FY 2013 Agency Financial Report." Specifically, DoD reported that until the Department has an auditable Statement of Budgetary Resources, DoD will

not be able to fully reconcile outlays to ensure that all required payments are reviewed for reporting purposes. We are not making a recommendation to correct the internal control weakness because DoD already has efforts underway to improve the financial processes, including the Financial Improvement and Audit Readiness initiative and systems modernization.

DoD did not meet the reduction targets for five of the eight payment programs with established targets: Military Pay, Civilian Pay, Defense Finance and Accounting Service (DFAS) Commercial Pay, U.S. Army Corps of Engineers (USACE) Travel Pay, and DoD Travel Pay. We will provide a copy of the report to the senior official responsible for internal controls for USD(C)/CFO.

Finding

DoD Complied With Five of the Six Improper Payments Elimination and Recovery Act Requirements

The USD(C)/CFO published the DoD FY 2013 AFR showing that DoD met five of the six requirements of the IPERA. Specifically, DoD:

- published an AFR,
- conducted program-specific risk assessments,
- published corrective action plans,
- published improper payment estimates, and
- reported improper payment rates of less than 10 percent.

However, DoD's inability to ensure that all required payments were reviewed resulted in estimates that were unreliable.³ Furthermore, DoD did not meet the requirement to achieve the reduction targets⁴ for five of eight payment programs with established targets: Military Pay, Civilian Pay, DFAS Commercial Pay, USACE Travel Pay, and DoD Travel Pay. According to the DoD FY 2013 AFR:

- Military Pay errors occurred because of high turnover in payroll clerks,
- Civilian Pay input errors occurred by personnel in the human resources offices,
- DFAS Commercial Pay input errors were caused by pay technicians,
- USACE Travel Pay errors occurred because approving officials' reviews of travel vouchers were not adequate to prevent improper payments, and
- DoD Travel Pay errors occurred because approving officials' reviews of travel vouchers were not adequate to prevent improper payments.

³ We plan to issue another report that will address the completeness of the payments used for the estimates.

⁴ OMB Circular A-123, Appendix C, Part II, defines "compliance" as having published and met annual reduction targets for each program assessed to be at risk for improper payments.

Because of the errors, DoD did not achieve the improper payment reductions intended in IPERA for these five programs and did not fully comply with IPERA in FY 2013. In addition to IPERA requirements, the USD(C)/CFO met the OMB requirement to report information on its efforts to recapture improper payments within the DoD FY 2013 AFR.

DoD Published an Agency Financial Report for FY 2013

USD(C)/CFO complied with the IPERA requirement to publish an AFR. DoD issued its FY 2013 AFR on December 16, 2013, and published the AFR on its website. OMB Circular A-123, Appendix C, Part I, "Improper Payments Elimination and Recovery," April 14, 2011, requires that agencies report to the President and Congress an estimate of the annual amount of improper payments for all programs and activities determined to be susceptible to significant improper payments. OMB Circular A-136 Revised, "Financial Reporting Requirements," October 21, 2013, required that DoD issue the report by December 16, 2013, in accordance with "Controller Alert: Key Dates for Fiscal Year-End Reporting and the Financial Report of the United States Government," October 31, 2013. The Controller Alert established a timeline for financial reporting 1 month later than usual because of the Federal Government shutdown from a lapse in appropriations.

DoD Identified Nine Payment Programs Susceptible to Improper Payments

The USD(C)/CFO met the IPERA requirement to conduct a program-specific risk assessment. Because DoD determined that all DoD payment programs are risk-susceptible, DoD did not perform a formal overall risk assessment to determine payment programs susceptible to improper payments. Therefore, DoD reported on each program in the AFR and met the intent of the law for performing risk assessments.

According to the DoD FY 2013 AFR, "Since FY 2006, when OMB determined that all DoD payments are risk-susceptible, the Department has maintained a more conservative position than required by IPERA and considers all payment categories as high risk." Although DoD considered all payments risk-susceptible, the AFR reported that DFAS, USACE, and the Defense Health Agency (DHA) evaluated risk for their payment programs during FY 2013.

USD(C)/CFO identified the following nine programs, with combined outlays totaling about \$615.76 billion, as susceptible to improper payments:

- Military Health Benefits,
- Military Pay,
- Civilian Pay,
- Military Retirement,
- DoD Travel Pay,
- DFAS Commercial Pay,
- USACE Travel Pay,
- USACE Commercial Pay, and
- Navy Enterprise Resource Planning Commercial Pay.

Corrective Actions To Further Reduce Improper Payments

USD(C)/CFO complied with the IPERA requirement to publish corrective action plans in the DoD FY 2013 AFR. OMB Circular A-123, Appendix C, Parts I and II, states that all programs and activities identified under the risk assessment as being susceptible to improper payments must have a corrective action plan put in place to reduce the risk of improper payments and to publish the corrective action plan in the AFR.

USD(C)/CFO published corrective action plans in the DoD FY 2013 AFR for each of the programs susceptible to significant improper payments. The DoD FY 2013 AFR included corrective action plans for the primary root causes of improper payments identified for each payment program. In most cases, corrective actions were in progress through the year, using various improper payment identification and reporting processes. For example, Military Pay corrective actions included instituting more comprehensive training programs with standard desk procedures to provide a reference for new clerks. In addition, DoD, primarily through DFAS, advises the Military Services of the results of payment reviews and the associated root causes of the errors. DFAS provides the Military Service financial managers with monthly reports on the results of statistical reviews, including the reasons for and dollar value of errors and year-to-date trends, to improve their training plans.

DoD Published Improper Payment Estimates But Data Accuracy Concerns Exist

USD(C)/CFO met the IPERA requirement to publish improper payment estimates for programs identified as susceptible to significant improper payments. However, because DoD lacked an auditable Statement of Budgetary Resources, DoD cannot provide assurance that the estimates were based on accurate and complete data. This lack of an auditable Statement of Budgetary Resources made it impossible for DoD to fully reconcile outlays to ensure that all required payments were reviewed for reporting purposes. Therefore, the DoD improper payment estimates in the FY 2013 AFR were unreliable. In addition, we identified deficiencies in the methodologies for five of the nine payment program areas that could further affect the reliability of DoD's improper payment estimates:

- The USACE Commercial Pay sample plan did not meet OMB sampling requirements, resulting in an insufficient sample size. Additionally, USACE did not have an OMB-approved sample plan for its Travel Pay outlays. Therefore, USACE cannot be assured that the results of the samples represented the entire universe of payments. During the audit, USACE took action to correct these deficiencies for FY 2014 reporting.
- DoD excluded one account from its Travel Pay estimate because one activity did not submit quarterly reports as required. Therefore, the DoD Travel Pay improper payment estimate was based on incomplete data, and the results are unreliable.
- DoD based the DFAS Commercial Pay estimate on a sample design that selected invoices without considering the invoice dollar value. For example, a \$10 million invoice had the same chance of being selected in a sample as a \$100 invoice. DoD acknowledged in the FY 2013 AFR that a stratified design will "provide confidence" and plans to implement a new methodology in FY 2014.
- DHA excluded about \$1.7 billion in outlays identified in its risk assessment from its analysis. These outlays represented payments that DHA considered to be at low risk for improper payments. Additionally, DHA sampling sometimes excluded contract payments below a certain dollar threshold. For example, DHA excluded 11.3 million claims from one contract—57 percent of total claims—because each was below \$100. Excluding a high volume of claims from the sampling universe will result in an unreliable improper payment estimate.

We are also performing the audit of “DoD Methodologies for Determining Improper Payment Rates Under the Improper Payments Elimination and Recovery Act” (Project No. D2014-D000CJ-0105.000). We will further review the accuracy and completeness and will issue a separate report.

Reported Improper Payment Rates Were Below the Office of Management and Budget Established Threshold

USD(C)/CFO met the IPERA requirement to report improper payment rates of less than 10 percent for each program reporting estimated improper payments. Although the improper payment rates reported by DoD in the FY 2013 AFR were under the required threshold, we identified deficiencies that cast doubt on the reliability of the estimates used to compute the improper payment rates, as noted in the previous section. OMB Circular A-123, Appendix C, Part II, requires agencies to report a gross improper payment rate of less than 10 percent for each program with an improper payment estimate. DoD did not report any payment programs with improper payment rates above 10 percent. For example, seven of the nine payment programs had improper payment rates at 0.32 percent or lower. The DoD Travel Pay program, which does not include USACE travel, had the highest reported improper payment rate at 6.5 percent, and USACE travel payments reported 1.43 percent improper payments.

DoD Did Not Meet Improper Payment Reduction Targets for Five of Eight Payment Programs

DoD did not meet the reduction targets for five of the eight payment programs with established reduction targets set in the FY 2012 AFR. DoD added the Navy Enterprise Resource Planning Commercial Pay payment program, a ninth program, during FY 2013 and therefore did not have an established reduction target.

FY 2013 was the first year that DoD did not meet reduction targets for four payment programs: Military Pay, Civilian Pay, DFAS Commercial Pay, and USACE Travel Pay. Additionally, DoD did not meet the reduction target for DoD Travel Pay for the second consecutive year. The number of years the payment programs were delinquent determines the required courses of action that DoD must take.

OMB Circular A-123, Appendix C, Part II, states that an agency has complied if it has “published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.” DoD set FY 2013 reduction targets in the FY 2012 AFR. However, the percent of actual improper payments was above the reduction targets for five payment programs reported in the DoD FY 2013 AFR. The following table shows the FY 2013 reduction targets and actual improper payments for the five payment programs.

Table. FY 2013 Annual Reduction Targets for High-Risk Programs

Program Not Met	FY13 Reduction Target (Percent)	FY13 Actual Improper Payments (Percent)	FY13 Improper Payment Outlays (\$Millions)
Military Pay	0.240	0.29	\$286.60
Civilian Pay	0.140	0.17	96.40
DFAS Commercial Pay	0.020	0.03	117.30
USACE Travel Pay	0.045	1.43	2.28
DoD Travel Pay	3.260	6.50	474.80

In accordance with OMB Circular A-136, DoD identified the following root causes of errors and corrective actions in the FY 2013 AFR for each of the five payment programs.

Military Pay Program

The FY 2013 AFR stated that overpayments comprised 90 percent of the Military Pay improper payments that occurred in the separation debts (out-of-service debts established after a member has left the Service) and through in-service debt collections reported by the Military Services. The FY 2013 AFR attributed the errors to a high turnover in military payroll clerks throughout the Military Services. DoD's stated corrective actions included instituting more comprehensive training programs to reduce errors related to separation debts. To reduce improper payments in the Military Pay program and become compliant with the requirements of the IPERA, the USD(C)/CFO should coordinate with the Military Departments and Defense Agencies to develop metrics and quality assurance goals.

Civilian Pay Program

The FY 2013 AFR identified that Civilian Pay input errors by personnel in the human resources offices caused improper payments by allowing many overseas employees to receive unauthorized Living Quarters Allowance. DoD's stated corrective actions included considering the use of pay audits when an employee

left his or her overseas position. To reduce improper payments in the Civilian Pay program and become compliant with the requirements of the IPERA, the USD(C)/CFO should coordinate with the Military Departments and Defense Agencies to develop metrics and quality assurance goals.

DFAS Commercial Pay Program

The FY 2013 AFR stated that pay technician input errors accounted for the majority of improper payments within DFAS Commercial Pay. DoD's stated corrective actions included ongoing training for pay technicians. To reduce improper payments in the DFAS Commercial Pay program and become compliant with the requirements of the IPERA, the USD(C)/CFO should coordinate with the Military Departments and Defense Agencies to develop metrics and quality assurance goals.

USACE Travel Pay Program

According to the FY 2013 AFR, USACE Travel Pay errors generally occurred because travelers made mistakes when completing their travel vouchers and because approving officials did not properly review travel vouchers before approval. DoD's stated corrective actions included educating travelers and travel authorizing officials through required training and certification, as needed. To reduce improper payments in the USACE Travel Pay program and become compliant with the requirements of the IPERA, the USD(C)/CFO should coordinate with the Military Departments and Defense Agencies to develop metrics and quality assurance goals.

DoD Travel Pay Program

The FY 2013 AFR stated that DoD Travel Pay errors occurred because travelers made mistakes when completing their vouchers. In addition, approving officials did not identify travelers' errors before DoD reimbursed the travelers. DoD's stated corrective actions included error trend report reviews and DFAS post-payment reviews by personnel who present preventive measure training sessions. USD(C)/CFO should also coordinate with the Director of OMB to review the DoD Travel Pay program and determine whether additional funding would help the agency come into compliance with Public Law 111-204.

Increased Improper Payments

As a result, improper payments increased in the Military Pay, Civilian Pay, DFAS Commercial Pay, USACE Travel Pay, and DoD Travel Pay programs. DoD did not achieve the improper payment reductions intended in IPERA for these five programs or fully comply with IPERA in FY 2013. According to the DoD FY 2013 AFR, DoD would not have made these improper payments if the high turnover of Military Pay payroll clerks received more comprehensive training to reduce overpayments, if personnel in the human resources offices input Civilian Pay information more timely or accurately into the pay systems, and if pay technician input errors were reduced within DFAS Commercial Pay. In addition, errors would not have occurred in DoD Travel Pay and USACE Travel Pay, if the authorizing or certifying officials had conducted adequate reviews of travel vouchers before payment.

DoD Also Met an Additional Office of Management and Budget Requirement To Report on Efforts To Recover Improper Payments

USD(C)/CFO met the OMB Circular A-123, Appendix C, Part I requirement to report information on efforts to recapture improper payments. IPERA requires agencies to conduct payment recapture audits for each program that expends \$1 million or more annually if conducting such audits would be cost-effective. The OMB guidance states that agencies should strive to achieve an annual recapture target of 85 percent by FY 2013. DoD reported payment recapture audit results for two programs in its FY 2013 AFR: DoD Travel Pay, which identified \$1.5 million for recovery, and USACE Commercial Pay, which reported zero dollars identified for recovery. These recapture audits did not achieve the 85 percent recovery target. However, the travel pay recovery audit was in its first year of a pilot program, and the USACE recovery audit resulted in nothing to recover.

DoD also reported overpayments recovered outside of payment recapture audits for seven programs. OMB Circular A-123, Appendix C, Part II, states that the AFR should include a description of the justification and analysis when the agency determines that payment recapture audits are not cost-effective. Although DoD did not include this justification in the AFR, USD(C)/CFO personnel stated that conducting payment recapture audits for the seven programs as defined in OMB Circular A-123 was not cost-effective because the DoD programs were achieving the same or better results through other means. The FY 2013 AFR

included descriptions of some of the techniques used to identify and recapture overpayments, which resulted in \$529.5 million identified and \$491.3 million recovered.

Conclusion

The USD(C)/CFO met five of the six requirements of the IPERA. Specifically, DoD published an Annual Financial Report, corrective action plans, improper payment estimates, and conducted program-specific risk assessments. DoD also reported improper payment rates of less than 10 percent. However, DoD's inability to ensure that all required payments were reviewed resulted in estimates and rates that were unreliable. Furthermore, DoD did not meet the reduction targets for five of its eight payment programs with established targets. OMB Circular A-123, Appendix C, Parts I and II, provides the remediation procedures for cases of non-compliance with the IPERA.

Remediation for Non-Compliance

For agencies that are not compliant with Improper Payments Information Act for 1 fiscal year, OMB Circular A-123, Appendix C, Parts I and II, states that:

Agencies that are not compliant with Improper Payments Information Act must complete several actions. For agencies that are not compliant for one fiscal year, within 90 days of the determination of non-compliance, the agency shall submit a plan to the Senate Homeland Security and Government Affairs Committee and the House Committee on Oversight and Governmental Reform describing the actions that the agency will take to become compliant. The plan shall include:

- Measurable milestones to be accomplished in order to achieve compliance for each program or activity;
- The designation of a senior agency official who shall be accountable for the progress of the agency in coming into compliance for each program or activity; and
- The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official in leading agency efforts to achieve compliance for each program and activity.

DoD was not compliant with the requirement to meet reduction targets for Military Pay, Civilian Pay, DFAS Commercial Pay, USACE Travel Pay, and DoD Travel Pay. As required by Public Law 111-204 and implementing guidance, the USD(C)/CFO should develop and submit a plan to the appropriate congressional committees on the actions that the agency will take to become compliant.

In addition, for agencies that are not compliant with Improper Payments Information Act for 2 fiscal years, OMB Circular A-123, Appendix C, Parts I and II, states that:

Agencies that are not compliant for two consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine if additional funding would help the agency come into compliance.

For the second fiscal year, DoD was not compliant with the requirement to meet reduction targets for DoD Travel Pay.

Recommendations, Management Comments, and Our Response

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- 1. Coordinate with Military Departments and Defense Agencies to address errors in the Military Pay program. Specifically:**
 - a. Develop metrics and quality assurance goals as well as programmatic corrective action plans to reduce errors related to separation debts, including holding those officials financially liable where appropriate.**
 - b. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.**
- 2. Coordinate with Military Departments and Defense Agencies to address errors in the Civilian Pay program. Specifically:**
 - a. Develop metrics and quality assurance goals as well as programmatic corrective action plans for input errors by personnel in the human resources offices, including holding those officials financially liable where appropriate.**

- b. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.
3. Coordinate with Military Departments and Defense Agencies to address errors in the Defense Finance and Accounting Service Commercial Pay program. Specifically:
 - a. Develop metrics and quality assurance goals as well as programmatic corrective action plans for input errors, including holding those officials financially liable where appropriate.
 - b. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.
4. Coordinate with the Military Departments and Defense Agencies to address errors in the U.S. Army Corps of Engineers Travel Pay program. Specifically:
 - a. Develop metrics and quality assurance goals as well as programmatic corrective action plans for authorizing/certifying officials certifying vouchers that result in improper payment, including holding those officials financially liable where appropriate.
 - b. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, partially agreed with recommendations 1, 2, 3, and 4, stating that metrics were previously established and that new metrics were not necessary. The Deputy Chief Financial Officer agreed to develop quality assurance goals and programmatic corrective action plans to reduce errors and to hold those officials financially liable where appropriate. In addition, the Deputy Chief Financial Officer stated the Office of the Under Secretary of Defense (Comptroller) will submit a remediation plan to

appropriate congressional committees within 90 days of the final report. According to the Deputy Chief Financial Officer, the plan will include working with the Office of Management and Budget to establish realistic thresholds around reduction targets.

Our Response

Comments from the Deputy Chief Financial Officer addressed all specifics of the recommendations. While the Deputy Chief Financial Officer did not agree to develop metrics, stating that metrics were already established, he did agree with recommended actions to remediate the identified causes of improper payments. Those actions, and the additional action of working with the Office of Management and Budget to refine the reporting criteria regarding reduction targets, met the intent of the recommendations. Therefore, no further comments are required.

5. Coordinate with the Director of Office of Management and Budget to review the Defense Finance and Accounting Service Travel Pay program and determine whether additional funding would help the agency comply with Public Law 111-204 to meet payment reduction targets.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, agreed, stating that the Office of the Under Secretary of Defense (Comptroller) will work with the Office of Management and Budget to review the Defense Finance and Accounting Service Travel Pay program to help the agency comply with Public Law 111-204 to meet payment reduction targets.

Our Response

Comments from the Deputy Chief Financial Officer addressed all specifics of the recommendations. Therefore, no further comments are required.

Appendix

Scope and Methodology

We conducted this performance audit from November 2013 through March 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine DoD compliance with IPERA requirements, we obtained and reviewed the “Improper Payment and Payment Recapture Programs” report published in Addendum A, “Other Accompanying Information,” of DoD FY 2013 AFR. We also obtained and reviewed Public Law 107-300, “Improper Payments Information Act of 2002,” November 26, 2002, and Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010. We also reviewed implementing guidance in OMB Circular A-123, Appendix C, “Requirements for Effective Measurement and Remediation of Improper Payments,” Parts I and II, April 14, 2011, and OMB Circular A-136 Revised, “Financial Reporting Requirements,” October 21, 2013. We interviewed personnel from the USD(C)/CFO, DFAS, DHA, and USACE, and requested information during our review of methodologies used to conduct program sampling and projection. We gathered and reviewed the FY 2013 documentation used to support the risk assessments and improper payment rates and estimates reported in the DoD FY 2013 AFR. We also reviewed corrective action plans, reduction targets, and payment recapture efforts reported in the DoD FY 2013 AFR.

Use of Computer-Processed Data

We relied on computer-processed data included in the DoD FY 2013 AFR to perform this audit. Specifically, we relied on the estimates of improper payments included in the DoD FY 2013 AFR. However, we identified inaccuracies in the data that led us to conclude that the data and the resulting estimates were unreliable. The unreliable data and estimates are discussed in the finding of this report. The reliability of the data did not affect other areas of compliance.

Use of Technical Assistance

During the audit, we requested and received technical assistance from the DoD Office of Inspector General Quantitative Methods Division. Quantitative Methods Division analysts reviewed the sampling plans for eight of the nine programs that reported improper payment estimates in the DoD FY 2013 AFR to determine whether their sampling methodology resulted in a statistically valid sample size in accordance with OMB guidance. USD(C)/CFO did not provide the audit team with a sampling plan for USACE Travel Payments because USACE did not prepare and submit a FY 2013 plan. Quantitative Methods Division analysts determined that one sampling plan, USACE Commercial Payments, contained an error that resulted in the statistical sample not meeting OMB criteria.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoD IG) issued five reports discussing compliance with improper payment identification and reporting requirements. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

GAO

Report No. GAO-13-227, "Significant Improvements Needed in Efforts to Address Improper Payment Requirements," May 13, 2013

Report No. GAO-09-442, "Significant Improvements Needed in DOD's Efforts to Address Improper Payment and Recovery Auditing Requirements," July 29, 2009

DoD IG

Report No. DODIG-2013-054, "DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2012," March 13, 2013

Report No. DODIG-2012-065, "DoD Compliance With the Requirements of the Improper Payments Elimination and Recovery Act," March 15, 2012

Report No. D-2011-050, "DoD Needs to Improve High Dollar Overpayment Review and Reporting," March 16, 2011

Management Comments

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

MAR 31 2014

MEMORANDUM FOR PROGRAM DIRECTOR, DOD PAYMENTS AND ACCOUNTING OPERATIONS, DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on Discussion Draft of a Proposed Report, "Audit of DoD FY 2013 Compliance With the Improper Payments Elimination and Recovery Act Requirements" (Project No. D2014-D000CJ-0065.000)

This memorandum provides the Office of the Under Secretary of Defense (Comptroller) response to the subject Department of Defense (DoD) Office of Inspector General (DoDOIG) discussion draft received March 19, 2014. We remain committed to minimizing improper payments and striving for complete compliance with the Improper Payments Elimination and Recovery Act (IPERA). The DoDOIG determined that DoD met five of the six IPERA requirements, with several program elements falling short of our Fiscal Year 2013 goals.

While we strive for continuous improvement, when a program is already operating at a level where pursuing further reductions may not be cost-effective, our decision has been to sustain that level of performance. Because target reduction goals were missed by extremely small percentages in three such programs, we have opened a dialog with the Office of Management and Budget (OMB) regarding the weighting of compliance criteria and potential tolerance levels around target reduction goals. Other Federal agencies have expressed concern about this same issue and have also shared their thoughts with OMB. We will include the results of our discussions, where relevant, in our future remediation plans.

Management provided technical comments directly to the DoDOIG's audit team on March 24, 2014. The attachment included with this memorandum provides our formal response to your five recommendations. We note you are planning a future audit that will address the completeness of the payments used for our estimates, and look forward to sharing the work that has been done to improve this aspect of our program, as well as improving the quality of our supporting documentation.

Thank you for the opportunity to respond to the discussion draft. My staff contact for this matter is [REDACTED]

Mark E. Easton
Deputy Chief Financial Officer

Attachment
As stated

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

**DEPARTMENT OF DEFENSE (DOD) OFFICE OF INSPECTOR GENERAL (OIG)
PROJECT NO. D2014-D000CJ-0065.000,
“AUDIT OF DOD FY 2013 COMPLIANCE WITH THE IMPROPER PAYMENTS
ELIMINATION AND RECOVERY ACT REQUIREMENTS”**

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))
RESPONSE TO RECOMMENDATIONS**

OIG RECOMMENDATION 1: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD: Coordinate with Military Departments and Defense Agencies to address errors in the Military Pay program. Specifically:

- a. Develop metrics and quality assurance goals as well as programmatic corrective action plans to reduce errors related to separation debts, including holding those officials financially liable where appropriate.
- b. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.

OUSD(C) RESPONSE: Partially concur. New metrics are unnecessary, as the Deputy Chief Financial Officer (DCFO) established monthly financial operations metrics for Military Pay in Fiscal Year (FY) 2006. Management concurs with developing quality assurance goals and programmatic corrective action plans to reduce errors related to separation debts. We will hold responsible officials financially liable, where appropriate. OUSD(C) will submit a remediation plan to appropriate congressional committees within 90 days of the final report. However, because the target was missed by only 5/100 of a percent, this plan will also include working with the Office of Management and Budget (OMB) to establish realistic thresholds around reduction targets.

OIG RECOMMENDATION 2: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD: Coordinate with Military Departments and Defense Agencies to address errors in the Civilian Pay program. Specifically:

- a. Develop metrics and quality assurance goals as well as programmatic corrective action plans for input errors by personnel in the human resource offices, including holding those officials financially liable where appropriate.
- b. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.

OUSD(C) RESPONSE: Partially concur. New metrics are unnecessary, as the DCFO established monthly financial operations metrics for Civilian Pay in FY 2008. Management concurs with developing quality assurance goals and programmatic corrective action plans for input errors by human resource personnel offices. We will hold responsible officials financially

Attachment

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

liable, where appropriate. OUSD(C) will submit a remediation plan to appropriate congressional committees within 90 days of the final report. However, because the target was missed by only 3/100 of a percent, this plan will also include working with OMB to establish realistic thresholds around reduction targets.

OIG RECOMMENDATION 3: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD: Coordinate with Military Departments and Defense Agencies to address errors in the Defense Finance and Accounting Service Commercial Pay program. Specifically:

- a. Develop metrics and quality assurance goals as well as programmatic corrective action plans for input errors, including hold those officials financially liable where appropriate.
- b. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.

OUSD(C) RESPONSE: Partially concur. New metrics are unnecessary, as the DCFO established monthly financial operations metrics for Defense Finance and Accounting Service (DFAS) Commercial Pay in FY 2008. Management concurs with developing quality assurance goals and programmatic corrective action plans for input errors. We will hold responsible officials financially liable, where appropriate.

DFAS uses its Business Activity Monitoring tool to help detect potential improper payments and continues to refine its logic to expand capabilities. Routine improper payment reports and analysis are provided to DFAS sites and include site, system, reason, contract, and vendor level trends. This information is used to identify training needs and areas for operational improvement. In addition, DFAS certifiers are held to Certifying Officer Legislation and uncollected debts are subject to Loss of Funds investigations.

OUSD(C) will submit a remediation plan to appropriate congressional committees within 90 days of the final report. However, because the target was missed by only 1/100 of a percent, this plan will also include working with OMB to establish realistic thresholds around reduction targets.

OIG RECOMMENDATION 4: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD: Coordinate with the U.S. Army Corps of Engineers to address errors in its Travel Pay program. Specifically:

- a. Develop metrics and quality assurance goals as well as programmatic corrective action plans for authorizing/certifying official certifying vouchers that result in improper payment, including holding those officials financially liable where appropriate.
- b. Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.

Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer, DoD (cont'd)

OUSD(C) RESPONSE: Partially concur. New metrics are unnecessary, as the DCFO plans to incorporate U.S. Army Corps of Engineers (USACE) Travel Pay data into financial operations travel pay metrics already in existence. Management concurs with developing quality assurance goals and programmatic corrective action plans for authorizing/certifying official certifying vouchers that result in improper payment. We will hold responsible officials financially liable, where appropriate. OUSD(C) will submit a remediation plan to appropriate congressional committees within 90 days of the final report. This plan will also include working with OMB to establish realistic thresholds around reduction targets.

OIG RECOMMENDATION 5: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD: Coordinate with the Director of Office of Management and Budget to review the Defense Finance and Accounting Service Travel Pay program and determine if additional funding would help the agency comply with Public Law 111-204 to meet payment reduction targets.

OUSD(C) RESPONSE: Concur. OUSD(C) will work with the Office of Management and Budget to review the DFAS Travel Pay program and determine if additional funding would help the agency comply with Public Law 111-204 to meet payment reduction targets.

Acronyms and Abbreviations

AFR	DoD Agency Financial Report
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
IPERA	Improper Payments Elimination and Recovery Act
OMB	Office of Management and Budget
USACE	U.S. Army Corps of Engineers
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD IG Director for Whistleblowing & Transparency. For more information on your rights and remedies against retaliation, go to the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

Congressional Liaison

Congressional@dodig.mil; 703.604.8324

Media Contact

Public.Affairs@dodig.mil; 703.604.8324

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DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, VA 22350-1500

www.dodig.mil

Defense Hotline 1.800.424.9098

